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THE DISPROPORTION OF TAXATION IN PITTSBURGH

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For many years, Pittsburgh, like all Gaul, was divided into three parts. These divisions, which continued until 1912, constituted a classification of real estate for taxing purposes, into "agricultural" property paying one-half the tax rate prevailing in its ward, "rural or suburban" paying two-thirds, and "full city" property paying the full tax rate. The classification plan dates back to 1867,¹ when the boundaries of Pittsburgh were being enlarged, taking in parts of five adjacent townships—back fifty years, when electric cars, telephones, and electric lights were unknown and when you could count on your fingers the American cities honey-combed with sewer burrows, water mains, and gas pipes distributing municipal services over large urban areas. On the theory that taxes were payments for definite benefits bestowed by government upon particular individuals, it was therefore deemed fair to discriminate in favor of farm and rural property not sharing fully in city lighting, policing, fire protection and sanitation. In other words, land classification was a measure designed to meet a specific condition.

The condition changed, however, with the growth of the city, but the discriminations remained on the statute books. The almost unavoidable result was that whole districts, similarly located and otherwise much alike, were placed in different classes; and in the same way individual holdings, often in the same ward, were inequitably taxed. For instance, in the east end of the city, property for some distance along one side of Center Avenue, and also along Fifth Avenue—two main thoroughfares—in 1910, the time of this investigation, was classed "full," paying the full tax rate, while at the same time that on the other side of these streets—very similar in character, more built up, if anything—was paying but two-thirds of the rate. These were large districts. Anomalies in the classifica-

¹ An Act of 1867 created two classes, "rural," and "full city;" in 1876 the third class, "agricultural" was added.

tion of small individual pieces of property are illustrated in a block on North Highland Avenue, bounded, on the other sides, by Stanton Avenue, Beatty, and Hay Streets. This in 1910 showed two taxation classes. Property fronting on North Highland and Stanton Avenues was classed as rural, while just across Supreme Alley, which runs through the block and parallel to North Highland Avenue and Beatty Street, the properties fronting on Beatty Street were classed as full. North Highland had the street car line giving it a full city character, but the Beatty Street properties, while they had some little yard space, were closely built up.

But, to illustrate injustices that were more inherent in the system itself, up from the Allegheny River, near Highland Park, were 105 acres of good high-lying land suitable for plotting into city lots, which had been held out of the market by one family since before the Revolutionary War. The estate was almost entirely surrounded by populous neighborhoods; on the east was the growing East Liberty Section; and on the west the very congested tenement house region which was literally dammed up against the fences of the farm. The land was put through only the motions of farming, hay being the only crop that amounted to anything, and yet until 1912 it never paid more than the "agricultural" one-half rate. Within 300 yards, in the same ward, real estate closely occupied by working people was taxed at full rates. Other illustrative instances could be related at length.

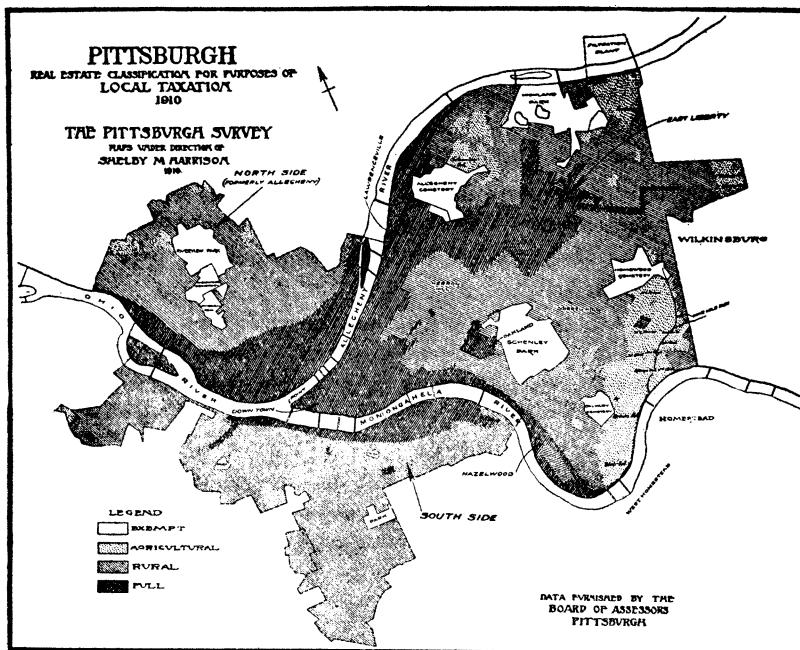
Basing the "rural" class on picturesque grounds and shrubbery, and the "agricultural" class on the presence of woods or large open tracts used in reality or ostensibly for farm purposes—definitions laid down by the law and the court—the Pittsburgh assessors returned the real estate valuations for 1910, as follows:

Full property.....	\$534,642,310
Rural property.....	208,224,892
Agricultural property.....	4,674,748
 Total	 \$747,541,950

Thus in 1910, real estate to the value of \$212,900,000, or 28 per cent of all, was classed in the rural and agricultural groups and escaped with paying only two-thirds or less (one-half in the case of agricultural land) of the current rate of the wards where located. That is, practically 10 per cent of the total cash values brought the city

no tax revenue whatever. Stated another way, in 1910, as a result of the classification system, over one-fourth of the real estate of Pittsburgh was relieved of one-third or more of its tax rates. The proportions were still higher in previous years.

The property classed as full comprised in the main all business districts, including manufacturing sites and railroad properties, and the congested residence districts where the mass of work people live.



MAP 1. GEOGRAPHICAL LOCATION OF THE THREE CLASSES OF REAL ESTATE

Of these, it was the latter, and the small storekeepers who served them, that suffered. For the former, the situation was mitigated in various ways. Sixty-six feet of right of way, as well as a considerable amount of other real estate owned by railroads operating in the city, was exempt from local taxes and therefore did not suffer from the full classification. Manufacturing properties, by certain exemptions and tendencies toward leniency in making valuations, got off with a much reduced full rate. Other downtown business property, through the system of separate sub-district school taxes,

which will be discussed later, had a low rate compared with small shops in the working class neighborhoods. The greatest anomaly of all, therefore, was that those financially least able were subject to full classification and therefore to the maximum city rates.

Agricultural land, of course, had few, if any, dwellings upon it. The connection between this classification of land and the under-supply and overcrowding of workingmen's houses found in many Pittsburgh neighborhoods seemed direct. For a generation Pittsburgh has been burdened with a taxation scheme which, because of discriminations, made it easy to hold great areas of unimproved land, but which, on the other hand, went gunning for the man who improved a small tract, and leveled at him what in effect was a double tax rate. Moreover, the working definitions of "rural" and "full city" property reduced the tax by one-third on expensive homes surrounded by large lawns, shrubbery, trees and flowers—property owned by precisely the people best able to support the government—while homes surrounded by a mere ribbon of grass, or none at all, and tenements that crowd block after block on both street and alley, paid the highest rates.

The local tax system, moreover, included features other than classification which led to inequalities of burden. Of these the varying tax rates prevailing in 63 separate sub-district school tax districts was as great a fiscal anachronism. Although the classification system modified the working of the separate ward rates, the latter can be best taken up first as a thing by itself.

Pittsburgh Separate Tax Rates. While Pittsburgh's current expenses were met out of a general rate, the erection and maintenance of school buildings were met by separate levies in the 63 tax districts referred to. The North Side (formerly Allegheny) paid a tax for general school purposes which was not assessed in other parts of the city; and the variation in rates for meeting special indebtedness led to still further differences in tax rates.

Although Pittsburgh was redistricted in 1907 making 27 wards out of what were formerly 59,² the old tax divisions remained, and some of the new wards showed as many as six tax rates. For example, in the new eighteenth ward, property on the south side of the narrow

² In 1910 there were 60 old wards, one having been added since redistricting, and three of these were divided into two taxing districts each, making 63 in all within the city borders.

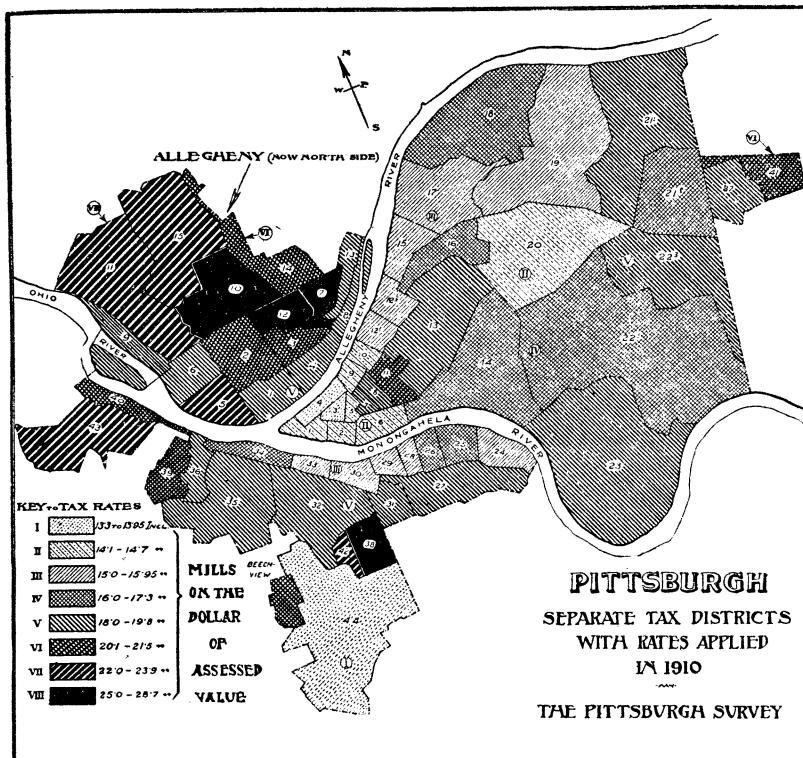
McKinley Park in 1910 paid 13.3 mills while just across on the north side the rate was 28.7 mills—over twice as much; property on the south side of Washington Avenue was bearing 23.9 mills at one place and 28.7 mills at another, while that across the avenue from both of these bore 18.7 mills; property east of Beltzhoover Avenue was carrying a millage of 19.2, while that contiguous and west of the avenue carried a rate of 18.7 at some places and 28.7 at others.

The most important factor in causing the differences in rates, as already indicated, was the separate school district tax. These rates in 1910 were as low as one-sixth and one-fourth of a mill in downtown business wards, and as high as 15 mills in the old thirty-eighth ward, used chiefly for residence. Nor were these differences in school millage mere bagatelles of a sort to be lost in the general tax rates. They dominated the final rates as they spread out over the city, with the result that the total rates in the 63 districts ranged from 13.3 mills to 28.7.

When the table of all these rates, listed in the order of size of rate, is inspected, it is seen that the first nine districts had rates in 1910 under $14\frac{1}{2}$ mills. A reference to the map of Pittsburgh shows that these districts represented practically all of the valuable holdings in the business triangle up from the point, where the rivers meet, and included no other holdings. At the other end of the list there are 17 tax sections which carried rates of over 20 mills, and a glance at the map shows, excepting parts of the 2nd, 3rd and 5th, North Side Wards, that these districts were almost exclusively residence districts. They made up a very large proportion of the residence area of the city. Moreover, with a few exceptions, these high rate areas did not represent or include the most expensive residence districts, those most able to bear taxation. They were mainly small home-owning or congested renting neighborhoods. The old 19th, 20th, 21st, and 22nd wards—all of them large wards, made up for the most part of residence properties which would be classed among the most expensive in the city—were conspicuously absent from the seventeen districts with highest rates.

Considered quite independently of the classification system already described, the ward rates indicated that the heaviest tax burdens in Pittsburgh in 1910 were not felt by owners of downtown business holdings or expensive residence property—but by owners and renters of small houses and tenements.

Classification and Separate Rates Combined. But these factors, classification of land and ward rates, did not work independently of each other. What then was their result, working together? Did the inequalities of the one offset the inequalities of the other, or did they together tend to double up inconsistencies and injustice? To determine this, upon a map showing



MAP 2. SEPARATE TAX DISTRICTS, WITH 1910 TAX RATES.

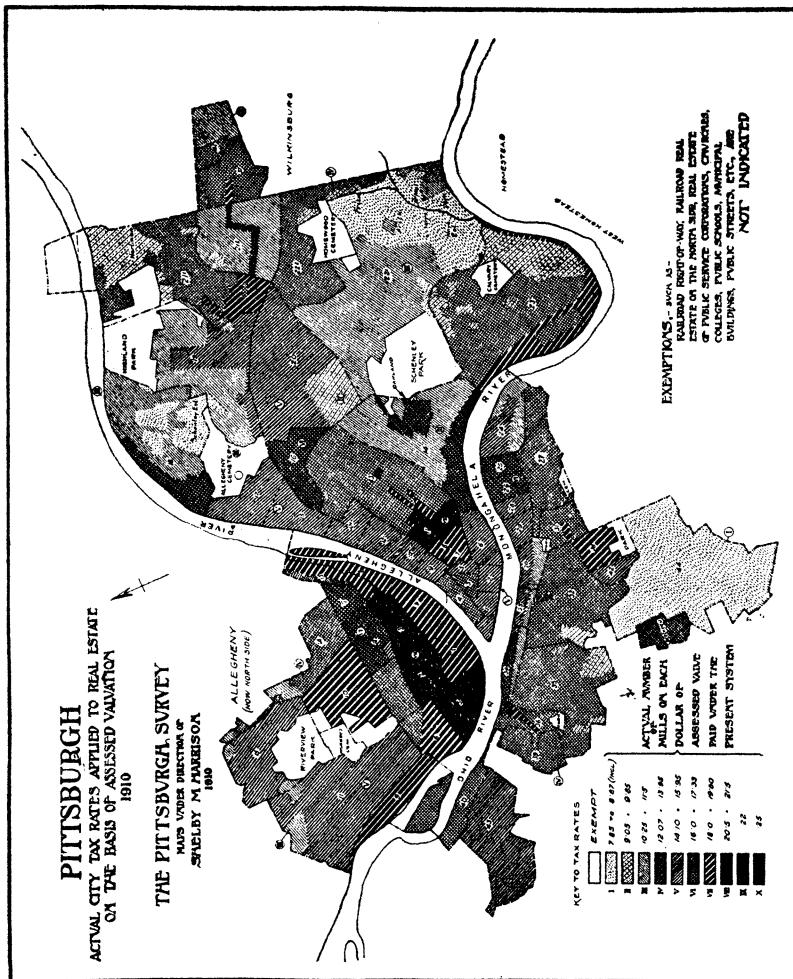
the nominal tax rates in each of the 63 different tax districts, was superimposed the map showing land classification. In other words, using the various separate tax rates as bases, we went over the city and shaved off one-half the ward rate wherever we found land classed as agricultural, and shaved off one-third the rate where it was classed rural. This left full rates only where the land was classed as full.

The result of this combination is that *actual* rates on assessed valuations varied in the different localities from 7.85 to 25 mills on the dollar. In our full report (see Volume Five, the Pittsburgh Survey), these inequalities were brought out *en masse* by dividing the detailed table of localities and rates into three large groups, placing all realty paying under 12 mills in the first, all paying above 12 and under 16 in the second, and in the third all property paying 16 mills and over. It was found that the low rates were being paid almost entirely by large "agricultural" holdings and expensive residence property, while the high rates were saddled upon small business realty, small residences, and congested tenement neighborhoods. The middle group included principally the downtown business wards, several manufacturing wards and a number of well-to-do residence districts. The conclusion from this grouping was inevitable. The inequalities of the land classification and of the separate ward rates did not offset each other. Rather they tended to accentuate the disproportions.

It may be objected that such conclusions as to the injustice of the tax burdens cannot be drawn until the tax is followed a step further; that the ultimate payers of the tax, not alone the property taxed, must be located. The answer is found in two theories of the incidence of taxation.

The first is the one held by the average business man, and is that the whole tax, both on land and on buildings, is shifted to the shoulder of the tenant. The second, that held by the economists, is that in the main, when both house and ground are occupied by the owner, the real estate tax cannot be shifted, but is borne by the owner. When the owner rents the property to another, the owner still bears the tax on the land. The tax on the house, however, is shifted to occupier or tenant. When, however, tax rates throughout a city are very unequal, as is the case in Pittsburgh, and when the people tend to congregate in certain quarters of the city and seem unwilling to move out to the suburbs, as is usually the case with immigrants, a part at least of the taxes on land that is rented, and all the tax on the buildings, tend to be shifted upon the tenants. So on the theory of the business man and of the economist, the conclusion that the bulk of the local real estate taxes fell upon the renting population, the small home owners, the working people, and the small storekeepers they deal with, is not changed.

Any Mitigating Elements in the System. A question next taken up was whether there were any other elements in the system of laying the municipal tax burden which tended to minimize these



MAP 3. ACTUAL TAX RATES APPLIED TO ASSESSED VALUATION IN DIFFERENT PARTS OF THE CITY.

results or to aggravate them. Four points deserved special attention: under-valuation; assessment revisions; triennial assessments; and exemptions.

As to the first, it is proverbial that the small man carries the heavy end of assessed valuations; and the lack of publicity in Pittsburgh had no other effect than to aggravate this condition. A number of Pittsburgh property owners familiar with local taxation testified to the local working of this tendency to undervalue, relatively, large holdings. In support of the accuracy of the Pittsburgh assessments, however, it should be noted that the assessors appraise buildings and grounds separately, a procedure which is more likely to get at correct market values than by lumping them together. On the other hand, the difficulty of estimating values in a city subject to such revolutionary growth as Pittsburgh was illustrated when we chose a number of districts typifying expensive residence property, small homes, tenements, small business property, downtown business property, and so forth, and had them appraised by several leading real estate men of the city. These figures varied as much from each other as they did from those of the assessors. Moreover, the transfer books in the assessors' office showed that out of 56 transfers in the new first ward in 1910, 34, or 60 per cent, were for considerations of \$1 or other nominal amounts; 25 out of 41 in the second ward, 26 out of 66 in the third ward, and so on. It was impossible, therefore, to any large extent, to compare sale prices with assessments, or determine the percentage of valuation assessed against various kinds of property. With such disparity in estimated values and with the actual considerations concealed in so large a proportion of sales, the extent to which under-valuation were likely to favor the big property owners rather than the small owners depended very largely upon the personnel of the assessing staff, and the publicity given their work. In regard to publicity, very little was done beyond keeping the assessors' books open to public inspection.

Second, while the privilege of appeal for revision of assessments is open to all, it was the large property owner chiefly who benefited by it. The board of assessors in Pittsburgh is also the board of tax revision. At certain times each year the revision board gives notice that it will hear appeals for changing appraisals; and the number of responses to the notice is large. By leafing through the assessors' books, in which the revisions are recorded in red ink, we could see that a goodly number of appeals had succeeded, the revision being downward, of course: and that in the great majority of cases the properties affected were those held by the well-to-do and rich—

large and valuable holdings. This impression was corroborated by the statements of several members of the board. The explanation is not necessarily that such taxpayers have greater influence. Few, if any, of the small property owners ever appear before the board to ask for revision, but it pays the big owners to appeal; real estate men, agents and attorneys for owners scrutinize the assessments closely, watch the papers for notices of hearings, present their cases in the best form, and meet with some success in their appeals, almost as a matter of business.

As to the third point, triennial assessments, under the plan in vogue for years in Pittsburgh, tax rates tend to rise in the second and third year after assessments. Where, as was the case in Pittsburgh, tax burdens are unequally carried, such increases in the tax rate, of course, add new burdens to be borne in the same old unequal ratios. Until 1909, assessments oftener than every three years were illegal. The new act, however, provided for new assessments in any ward where they should be deemed necessary in any subsequent year. Thus the assessors were armed with full power to make annual valuations throughout the city as is done in New York, Philadelphia, Boston, St. Louis, and many other large cities. The department did not make a new assessment for 1911, however, nor for 1912, in a thoroughgoing way as was done for the triennial year 1910.

Fourth, Pittsburgh's exemptions of real estate from local taxation may be divided into two groups, commercial property and non-commercial. Non-commercial property included the long list generally exempted in all cities, such as churches, synagogues, Christian and benevolent associations, schools, colleges, libraries, hospitals, asylums, cemeteries; also city property, such as fire department buildings, city halls, parks, bath houses, police stations, and markets; and county, state and federal property, including court houses, jails, penitentiaries, armories, and post offices.³ In addition, of course, all public streets and alleys are not subject to tax levies. The city markets and the post offices are grouped here although they are commercial in character. They are owned by the government, however, and their profits do not go to individuals.

A more or less unique feature of local exemptions is found in the commercial group. In 1910, Pittsburgh exempted \$22,774,857 of

³ The total valuation of these exemptions had never before 1910 been computed by the assessors.

real estate owned by railroad companies, street car companies, gas companies, telephone, incline plane, water, light and heating companies. This amount is split up among the different kinds of companies, as follows:

Exempt Commercial Property in Pittsburgh in 1907

Kind of Property	Land	Buildings	Total
Railroad.....	\$17,106,701	\$1,805,150	\$18,911,851
Incline planes.....	56,973		56,973
Telephone and telegraph.....	449,918	345,700	795,618
Light, gas, heating, etc.....	988,205	1,952,675	2,940,880
Water companies.....	11,425		11,425
Miscellaneous.....	58,110		58,110
Total.....	\$18,671,332	\$4,103,525	\$22,774,857

These amounts are taken from the assessors' book of exemptions for 1907, as the 1910 book had not at the time of this inquiry been written up.⁴ New exemptions had been added on the records and property recently taken out of the exempt list subtracted; but a careful appraisal of exempt properties was evidently not regarded as of importance, some of the valuations going far back of 1907. The figures, therefore, are considerably under present values.

Sixty-six feet of right-of-way of all railroads operating within the city limits is not subject to local rates. The total of railroad land exempted amounts to \$17,106,701, or 76 per cent of the total commercial exemptions. Practically all is right-of-way. The other 25 per cent of total commercial exemptions is mainly buildings and equipment of railroads and building sites and buildings of the other companies indicated. Of these, railroad property, other than land, in turn represents almost one-third.

The Pennsylvania Railroad owns the largest amount of this exempt property—64 per cent of the grand total. Thirteen million dollars in land and over one and a half million dollars' worth of buildings, sheds and so forth, belonging to it pay no local taxes. The buildings are situated almost entirely on the North Side and include the Fort Wayne depot valued at \$145,000, a number of freight buildings, machine shops, storage houses, offices, and over \$900,000 in tracks

⁴ Exemptions were listed, however, in 1913.

In the group furnishing municipal service, the Philadelphia Company, which with its subsidiary companies supplies traction, gas, and electricity, is favored most, enjoying an exemption of over two and a quarter million dollars. The eight-story office building on Sixth Avenue, and the ground on which it stands, which were valued in 1910 at \$527,950, paid a tax upon only half this value, \$263,975 being exempt. The large power house and 22.5 acres of land in the old 9th ward North Side, worth \$458,000; the 11 or more acres of land with refining, purifying, retort and engine houses, and office buildings, in the old 14th ward, worth \$888,600; and other property in the old 15th, 20th, and 21st wards, most of this being Consolidated Gas Company property, are totally exempt from city taxation. Exemptions for property of Allegheny County Light Company, Allegheny Heating Company, and Pittsburgh and Castle Shannon Railroad constituent companies are also of considerable size.

Telephone companies are favored also, thirteeen-sixteenths of the Central District and Printing Telephone Company's three-story telephone exchange property on Fourth Avenue, valued at \$193,200, being exempt; and all of its eight-story brick office property on Seventh Avenue and Montour Way, valued at \$313,200, besides smaller holdings throughout the city. The Pittsburgh and Allegheny Telephone Company pays no local taxes on \$114,525 of property, mainly office buildings. Incline plane companies, water and miscellaneous companies own exempted property to the amount of \$126,508.

Why these exemptions? The answer takes us back first to the general fiscal policy of Pennsylvania. The state has practically withdrawn from the field of general property taxation, and draws a considerable part of its revenue from the operations of public service corporations. Local taxing bodies, in turn, do not tax the business of the railroads which run through them, nor to any large extent that of local service corporations. This has been a matter of legislation. When we go deeper and ask why real estate and buildings owned by such corporations are lifted, along with their franchises, out of reach of the municipal tax department, we come into a realm not of legislation but of judge-made law.

Briefly, the rule was first laid down by the courts that real and personal property necessary for the exercise of franchises of quasi-public service corporations loses its character as buildings, lands, and

so forth, and is exempt from local taxation. By a special act of Assembly in the '50's, however, all Pittsburgh railroad property was made subject to city taxation. But when half a century later Pittsburgh attempted to assess not only buildings but right-of-way under this act, the supreme court decided that it did not apply to right-of-way. Further, the act of 1859 did not include Allegheny (North Side), and when the two cities were consolidated the supreme court, reversing a lower court, held that the Allegheny freight yards, stations, and so forth, could not be taxed by the greater city for the purpose of liquidating its floating and bonded indebtedness at the time of annexation. Nor has this North Side railroad property paid taxes to meet the current expenses of the greater city up to 1914. Thus it is that at the time of consolidation all of the quasi-public service corporation property on the North Side continued exempt; and in the old city, railroad right-of-way was exempt and so continues. Street railways and incline planes are classed with railroads and are entirely exempt on the North Side,⁵ and in the old city the road bed is not taxed. Light, gas, heating, water, and telephone companies come under the general rule exempting property necessary for the exercise of their franchise.

It may be contended that the exemption from local taxes of stations, warehouses, power plants, and other improvements is justified in that it is an encouragement to the extension of transportation facilities. This contention would seem justified only in a city and state where the public control of public service corporations is such that citizens would receive better service for the same cost or the same service at less cost because of the exemption. Such a principle would lead far afield, moreover. The large distributors of milk, for example—a necessity fully as important as gas or transportation—might well argue that they should be let off from paying taxes on the buildings which house their refrigerating and bottling plants. But whatever the attitude toward not taxing buildings, the scot-freedom from land taxes of these commercial corporations does not seem justifiable. Land values are very largely, if not entirely, created by the community. If there is any agreement at all among taxation authorities, it is that real estate should bear an important part of

⁵ The Pittsburgh Railways Company pays a relatively small gross receipts tax and tax on cars on the North Side. In 1909 the former was \$38,416.99; the latter, \$1,871.24.

local taxes; and yet Pittsburgh makes an exception in the case of over \$18,000,000 in land values and absolves them from carrying their part of the city's expenses. The amount is as great as if the city exempted all real estate in the old 38th, 39th, and 40th wards, four times over.

Summary. To sum up, then, it was found that the dual system of discriminations by land classes on the one hand and ward rates on the other, in vogue in Pittsburgh up to 1912,⁶ saddled the heaviest burden of local taxation upon the man of small means, the small householder, the small renter, and the small business man. It was found also that other important features of the taxation system, having to do with revision, under-valuations, and triennial assessments, aggravated rather than mitigated these inequalities, while the exemption of considerable commercial property made it necessary to impose a higher rate upon all taxpayers. The report therefore concludes with the recommendation of four functional reforms:

First: The schedule of tax rates, untangled to a great extent by the abolition of the district school taxes, should be further simplified and should be kept simple. There are often local responsibilities which are so peculiar to the annexed territory that they should be shouldered for a short time at least by the individuals or community in which they originated, but the period of readjustment should be made as brief as possible.

Second: The machinery for an annual, instead of a triennial, assessment of all city real estate should be set to work. Taxes are levied annually and city budgets are planned annually; the basis for the raising of these taxes should also be made up annually.

Third: Greater publicity of assessments through the printing and wide distribution of the assessment lists, the issuing of reports with maps and diagrams showing assessment methods, the charting of assessed valuations out from the central point of highest value, all are methods which have helped solve the difficulty of maintaining a uniform ratio between assessed valuations and cash values, in other places.

Fourth: Real estate owned by public service corporations

⁶ The Halferty bill enacted in 1911 abolished the tax classification of real estate; in the same year a new school code was adopted which did away with the separate sub-district school tax levies.

should be subject to uniform local taxation. The city's policy is inconsistent regarding this property. In one part of the city it is taxed, while in another it is exempt. The least that should be demanded is uniformity throughout the city. But more should be demanded; more than \$18,000,000 worth of land owned by these corporations should be taxed.

These four changes would round out the radical reform wrought by abolishing land classes and ward rates. They would tend to clear away further discriminations and disproportions due to geographical location, to changes in values from one year to the next, to the human equation in assessing real estate, and to the favoritism heretofore shown to one corporate group of taxpayers.